The Role of Business Process Outsourcing on Customer Satisfaction in Public Universities in Kenya: A Case Study of Laikipia University

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Abstract: ***The aim of this study was to evaluate the role played by business process outsourcing in customer satisfaction. Specific objective of the study were: to assess the role of outsourced service quality on customer satisfaction, to establish the effects of relationships with service provider on customer satisfaction, to determine how image of service providers affect customer satisfaction and to establish the challenges experienced in ensuring customer satisfaction in outsourced services. The study was carried out at Laikipia University. The target population for the study was 2160 students drawn from Laikipia University from which a sample of 96 students was selected. The study relied on primary data collected by use of questionnaires. Quantitative techniques were used to analyze the data based on the research objectives. Descriptive statistics used included mean, mode, frequency and percentages. Spearman correlation was used to show the relationships between BPO and customer satisfaction. The study revealed that relationship with service providers played a large role in customer satisfaction. The image of service providers had a low effect on the level of customer satisfaction. The study recommends that Laikipia University should therefore revaluate their suppliers especially those directly dealing with students on the quality of service offered and the relationship with customers with a view to selecting providers who enhance better customer satisfaction in their service delivery.***

Keywords: business process outsourcing, corporate image, procurement management, service quality, supplier relationship management

1. Introduction

Faced with realities, institutions have already cut services deemed to be available elsewhere and expendable. There is a renewed interest in determining if external companies can be brought in to provide services at lower cost with a higher quality product or service. Areas such as food courts, security, cleaning services, accommodation, recreational facilities etc have been carefully examined to determine their importance to the institution's core mission. Procurement is a key function of any organization, public or private and in an era of globalization with the advent of entrepreneurial organizations, management of purchasing and supply in private as well as in public sectors has gained more prominence. All procurements regardless of their value or complexity follow a standard sequence of actions, which need to be effectively managed to realize the objectives of the procurement function. Effective management of the function prevents the possibility of poor performance and when attributed to non-adherence to proper procurement processes and procedures; is an indicator of poor management of the procurement function (Knight, et al., 2007).

Business Process Outsourcing (BPO) involves the contracting of the operations and responsibilities of a specific business function to a third party service provider (Lysons, 2003). The idea of hiring someone else to do some specific jobs or dividing labour had existed for hundreds of years in business. However; the term outsourcing was introduced in the mid 1980s. Outsourcing as a business concept according to Leenders et. Al, (2002) gained prominence in the 1990s. Organization outsource when they decide to buy something they had been making in house or to procure services they have been offering from within.

During the pre 1990s, the outsourcing was primarily focused on labour intensive production tasks and business activities outside the company's core competitiveness, such as printing press, food preparation and janitorial works, hiring the seasonal migrant farm workers and so on. In the industry society, outsourcing began with manufacturing. In order to reduce the cost after the great depression, manufacturers began to think of outsourcing complex production tasks instead of building core competencies through controlling the production process from end to end vertically (Lonsdale & Cox, 2000).

In the contemporary business environment, BPO is used as a management strategy by which an organization outsources major non core functions to specialized efficient service providers. The decision to outsource is often made in the interest of lowering firms cost or making better use of time and energy costs, redirecting or conserving energy directed at the competencies of a particular business or to make more efficient use of land, labor, capital (information) technology and resources. BPO also can enable companies to reap greater value, faster, from new technologies (Accenture, 2013).

As new generations of BPO evolve and as services continue to become more powerful, they increasingly incorporate IT innovations in a way already embedded naturally in the ways a company does business. Earlier generations of BPO services were focused primarily on cost savings and then on global capabilities and more efficient delivery in the back- and middle-office. As BPO moves on to fourth-, fifth- and sixth-generation services, the focus is now on achieving strategic business outcomes leveraging not only world-class delivery but also innovations such as cloud, analytics, mobile and collaboration (Accenture, 2013).

BPO has increasingly played an important role in business and it has also been adopted rapidly in strategic areas to compete in today's global business environment (Mclvor, 2008). This is due to the fact that it is viewed as the contribution by external suppliers in the user's organization and that it relies on external sources for value-adding activities. Therefore, not surprisingly, researchers and practitioners have supported the use of strategic outsourcing as an efficient way to increase profits, enhance new product success and performance and speed to organizational competitiveness (Jiang, 2007).

1.1 Statement of the Problem

In today's world of ever increasing competition, organizations are forced to look for new ways to generate value. The world has embraced the phenomenon of outsourcing and companies have adopted its principles to help them expand into other markets. Strategic management of outsourcing is perhaps the most powerful tool in management, and outsourcing of innovation is its frontier (Quinn, 2000). Successful implementation of an outsourcing strategy has been credited with helping to cut, increased capacity and quality (Lau and Hurley, 1997), increase profitability and productivity (Casale, 1996) which translates to improved financial performance, lower innovation costs and risks (Quinn, 2000), and improved organizational competitiveness. However, as the level of outsourcing in an organization increases, more functions of the firm are managed by external players. Currently universities in Kenya have deeply embraced outsourcing. In Laikipia University teaching is done majorly by lecturers who have been contracted on part time basis. This is a core function that if not well managed could affect the quality of education services received by customers. Other services outsourced include security services, cleaning services, construction, supply and delivery of consumables, and subscription to online libraries. This implies increased interaction of customers with contracted service providers. However, little study has been conducted to assess how outsourcing affects customer satisfaction especially in learning institutions. This study therefore sought to assess the role of business process outsourcing on customer satisfaction in Laikipia University.

1.2 Research Objectives

1) To establish the effects of relationships with service provider on customer satisfaction at Laikipia University.
2) To determine how image of service providers affect customer satisfaction at Laikipia University.

1.3 Significance of the Study

This study may be beneficial to the procurement function of Laikipia University since it sought to assess the impact of outsourcing on customer satisfaction. The findings may be used in enhancing efficiency and effectiveness in the procurement function. Further, procurement plays a significant role in enhancing performance of other organizations functions. Therefore implementing the findings of this study would not only improve performance of the procurement function but also the entire organization. The study explored the challenges experienced in outsourcing in public universities especially on key services such as courses offered in middle level colleges. Strategies to counter these challenges would translate to improved service delivery and performance of the University.

2. Literature Review

2.1 Theoretical Review

2.1.1 Transaction Cost Economic

The main contributor of the theory of transaction cost was Williamson Oliver in 1985 who also won the Nobel Prize in Economics in 2009. Originally, transaction cost economics addressed the questions: Why do firms exist? What is the most effective strategies for maximizing profits? What should firms make? and what should firms buy? The main argument of this theory was concerned with the conditions under which certain characteristics of the transaction or the object of the transaction would lead to its internal, hybrid, or external governance. The theory has two important fundamental behavioral assumptions: (1) bounded rationality (Simon 1957), and (2) opportunism.

Bounded rationality refers to that people have rationality, but limited. Therefore, it is only possible for both parties in a transaction to sign an incomplete contract. Opportunism refers to that people cunningly behave opportunistically at the expense of others. The danger of opportunism is assumed to be less likely within a firm than in market coordination since it can be prevented within a firm by means of the authority principle (hierarchy). This implies that when firms make the decision to outsource, they must be weary of the danger of opportunism that comes along with inviting external players in the firm. Opportunism by external players may lead to customer dissatisfaction especially where the outsourced firm deals directly with the customers. Further transaction cost economic theory in outsourcing implies that firms need to consider both production costs and transactions costs for an outsourcing transaction.

2.2 Agency Theory

Agency theory by Jensen and Meckling (1976) is based on the conceptualization of the firm as a nexus of contracts between principals or stakeholders and agents. The stakeholders are represented by different groups or persons within the firm as well as outside the firm, such as customers, suppliers, or shareholders. The basic assumption of agency theory is the existence of asymmetric information and different perceptions of risk between principal and agent as well as uncertainty. The basic argument is that the principal transfers decision rights to the agent. To make sure that the agent behaves as expected, the principal sets incentives.

The agency theory helps to expose problems of divergent interests within both markets and hierarchies. When there are divergent views between the principal and the agent, there is lack of consistency in the services offered especially where the agent deals direct with the customer. This implies that the relationship between the principal and the agent in an outsourcing contract is key in ensuring that the needs of

the customer are properly met therefore the customer is satisfied.

2.2.1 Relationship Theories

Relationship theories by Klepper (1995) and Kern (1997) focus on cooperation, interactions, and social and economic exchanges as major factors in inter-organizational relationships (IOR). More specifically, they focus on interactions between parties. Relationship theories often appear in the strategic management and marketing literature, addressing topics such as alliance and partnerships, competitive advantage, supply chain management and supplier-buyer relationship. The underlying notion of relationship theories is that at the root of all relationships is some type of exchange (Klepper, 1995; Kern 1997). When applied to outsourcing research, they have been used to identify the key dimensions of ITO relationship, including context, interactions, behavioral (Willcocks, 2000).

2.3 Conceptual Framework

The conceptual framework shows the relationship between independent and dependent variables as conceptualized by the researcher.

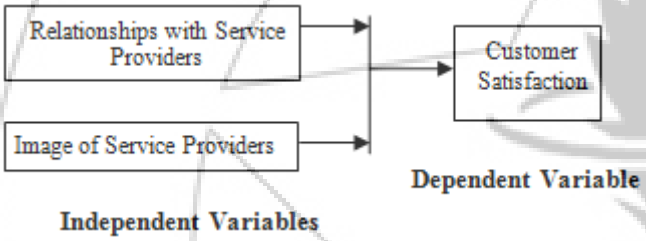

Figure 2.1: Conceptual Framework

The conceptual model on Figure 2.1 as conceptualized by the researcher shows that outsourcing plays a significant role in ensuring customer satisfaction. Three key components of outsourcing believed to play a major role include: the quality of outsourced service, the relationship between the organization and service providers and the image of service providers.

2.4 Empirical Review

Various studies have been conducted on the relationships between BPO and organization to support the view that BPO enhance organizations performance as discussed in this section.

2.5 Relationship with Service Providers

According to Elmuti (2003), a good partner is an important ingredient for success. Essentially in Outsourcing agreements, the relationship between the institutions and their partners are based on trust and on contracts. So it is essential that the right partners are selected based on criteria like credibility, expertise, and reliability. Barthelemy (2003) observes that right partners will eventually lead to closer ties and relationships. Elmuti (2003) has emphasized the importance to get the right people involved in managing outsourcing efforts and add that adequate training, infrastructure and facilities are essential. Benchmarking is most commonly employed in relationship management. Several organizations have to renegotiate contracts being signed.

McCutcheon (1995) further argues that the greatest danger in outsourcing is the attitude of getting rid of what a company does not like by subcontracting them out as opposed to the company outsourcing its non-core activities so as to enable it focus on its core activities. The result of the abdication process is a lack of process ownership, lack of accountability, and blame culture and eventually lose-lose situation for both parties. Vendor management (VM) has become an integral part of effective management of outsourcing. In today's business environment, it is becoming more important than ever for clients to consider how they extract maximum value from outsourcing arrangement, particularly in the context of multi-sourcing environments.
Outsourcing provides opportunities to leverage external expertise and scale to provide quality services at reduced cost enabling internal resources to be more focused on organization specific activities, appropriate to their knowledge and skill. However, without effective vendor relationship management, organizations are at risk of services not delivering what the business requires and at a premium cost to the business (Andersen, Pedersen & Zimmer, 2012). Vendor Relationship Management is the discipline of managing vendors to extract maximum possible value from a contractual arrangement through governance and relationship building. The proactive management of ongoing commercial relationships ensures that any technical or contractual loopholes are closed and that commercial conversations are escalated to the appropriate level to ensure prompt resolution of issues (Andersen, et al., 2012).

Outsourcing initiatives contain numerous complexities and interdependencies at the technical and relationship level and often require a major restructuring at the organizational level. This poses numerous operational and organizational challenges towards achieving the intended business objectives through such arrangements. An enterprise-wide governance perspective is crucial to deal with this complexity (Lacity & Willcocks, 2003). A strained relationship between a client and provider will ultimately detract from the value of the engagement.

2.6 Image of Service Providers and Customer Satisfaction

Corporate brand image according to Davies, Chun, Da Silva & Roper (2003) refers to that anything could be a brand, such as a company, corporate or name. Keller (1993), defined brand image is a perception about a brand held in consumer memory. Corporate brands are intangible assets for companies that are difficult to imitate, and it is different from products brands as emphasizing the important of brand values (De Chertanony, 1999). Ind (1997), reported that when consumers purchase products from a company, they not only buy products but also receive a set of values form the company. Corporate brands are a sum of values representing the corporate (Ind, 1997), and a positive corporate brand image is not only help companies to increase competition but also encourage consumers to re-purchases (Porter & Claycomb, 1997).

2.7 Customer Satisfaction

Customer satisfaction is viewed as influencing repurchase intentions and behavior, which, in turn, leads to an organization's future revenue and profits. However, Bowen and Shoemaker (2003) stated that satisfied customers might not return to the firm and spread positive word-of-mouth communications to others. One of the reasons is that the firm does not deliver what customers need or want (Roig, Garcia, Tena & Monzonis, 2006). Woodruff (1997) further identified that customer satisfaction measurement without fulfillment of customer perceived value could not really meet the customer's expectations. Therefore, other variables should exist to further explain the relationship between satisfaction and customer loyalty. Customer satisfaction is an important driver to customer loyalty and the success of businesses (Oliver, 1997). Studies have found positive evidence on the direct relationship between customer satisfaction and loyalty of repeat purchase, less price sensitive, cross-buying behavior, and profit (Bloemer & Odekerken-Schroder, 2002; Oliver, 1997). However, several studies (Dimitriades, 2006; Jones, 1996; Woodruff, 1997) show that satisfied customers do defect.

2.8 Indicators of Customer Satisfaction

Before 2001, a few studies had been conducted to investigate the outcomes of customer satisfaction. Understanding the outcomes of customer satisfaction, including customer loyalty (Bei & Chiao, 2001) and the intention to continue to do business with a particular provider remain relatively unexplored even though they are of central importance to marketers (Burnham et al., 2003). The Swedish Customer Satisfaction Barometer (SCSB) model established in 1989 was the first National Customer Satisfaction Index Model pertaining to purchased and consumed products and services (Fornell, 1992). The concept behind the National Customer Satisfaction Index Model requires a methodology with two properties (Fornell & Wernerfelt, 1998).

Student satisfaction is not simply dependent on the teaching consideration only, but there should be an in-depth analysis to find out the whole influential factors that contribute to the student satisfaction. Measuring student satisfaction is not an easy task to attempt. Therefore, the critical factors or variables used to evaluate student satisfaction differ from one researcher to another. To measure student satisfaction, DeShields Jr, Kara & Kaynak (2005) used a modified version of (Keaveney & Young, 1997).

3. Research Methodology

The researcher used a descriptive research design in analyzing the role of BPO in Customer Satisfaction. A Case study approach was used in studying the phenomena. The target population for the study was 2160 students drawn from Laikipia University. Students are the primary customers for institutions of higher learning. The main reason for selecting Laikipia University to conduct this research was that the institution adopted a substantial level of outsourcing of supply of goods and services. The sample size was determined using the formula by Nassiuma (2000): $n = (Nc_v^{2)} / (cv^2 + (N-1)\ e^2)$, where n= Sample size, N= Target Population, C_v = Coefficient of variation (taken as 0.05) and e= Tolerance at desired level of confidence (taken as 95% confidence level). The researcher used data from both primary and secondary sources. The primary data was collected by use of questionnaires which were administered to the sample chosen from all the academic departments of Laikipia University. The data was analyzed using quantitative techniques. Quantitative data was analyzed using descriptive statistics which included mean, mode, frequency and percentages. Spearman correlation was used to show the relationships between BPO and customer satisfaction.

4. Results and Discussions

4.1 Relationships with Service Providers on Customer Satisfaction

The study sought to explore how relationship between the university and service provider affected customer satisfaction. The customers/students were asked to indicate their rating on the relationship between the university and the service providers on a scale of 1-5. The results are presented on table 1.

Table 1: Relationship between University and Service Providers

	N	*Minimum*	*Maximum*	*Mean*	*Std. Deviation*
Rate university Relations with External Service Providers	83	1.00	4.00	2.53	1.10
Valid N (listwise)	83				

The findings shown on Table 1 show that customers rated the relationship between the university and the service providers at average (Mean = 2.53, with σ = 1.10). Further, the view of the customers on whether the relationship affected customer satisfaction is shown on Table 2.

Table 2: Relationship between University and Service Providers Affects Customer Satisfaction

	Frequency	*Percent*
Yes	60	72.3
No	23	27.7
Total	83	100.0

Customers agreed that the relationship between the university and its service providers played a significant role on customer satisfaction. Therefore service outsourcing is a critical element that requires prudent management. Table 3 shows the relationship management practices between the university and its service provider.

Table 3: Relationship Management Practices

Relationship Management	*N*	*Min*	*Max*	*Mean*	*Std. Deviation*
The university ensures that service providers have the necessary information when handling the students	83	1.00	5.00	3.45	1.42

The university employs proper relationships with service providers to ensure consistency of service providers	83	1.00	5.00	3.39	1.27
Customer concerns are shared promptly between the service provider and the university therefore addressed immediately	83	1.00	5.00	3.63	1.34
The university ensures proper contract management to avoid changing of service providers more frequently	83	1.00	5.00	3.54	1.36
The university has well organized mechanism for monitoring activities of service providers	83	1.00	5.00	3.40	1.42
Valid N (listwise)	83				

The findings in Table 3 show various practices in managing relationships for outsourced services. Generally, relationship management between the University and the contracted service providers was rated above average. The university provided the necessary information to providers who were handling students (Mean = 3.45, σ = 1.42). The university also ensured relationships with service providers was consistency of services provided (Mean = 3.39, σ = 1.27). In addition, relationship between service providers ensured that concerns raised at any point by the customers were shared promptly between the service provider and the university therefore being addressed immediately (Mean = 3.63, σ = 1.34). Contract management was also given first priority by the university to avoid changing service providers more frequently which would affect service quality (Mean = 3.54, σ = 1.36). Finally, students rated average the university's mechanism for monitoring activities of service providers (Mean = 3.40, σ = 1.42).

4.2 Image of Service Providers Affect Customer Satisfaction

The study also sought to determine whether the image of service providers affected customer satisfaction levels. On a scale of 1-5 customers rated the image of service providers engaged by the university as shown in Table 4.

Table 4: Image of Service Providers

	N	*Minimum*	*Maximum*	*Mean*	*Std. Deviation*
Image of Service Providers Contracted	83	1.00	5.00	2.69	1.13
Valid N (listwise)	83				

Customers rated the image of service providers slightly above average at (Mean = 2.69, σ = 1.13) which implies that although the university engaged service providers with some level of organizational image, this view was not widely held by its customers. Students/ customers were therefore asked to rate whether the image of service providers affected their satisfaction with the services offered as shown in Table 5.

Table 5: Image of Service Provider Affects Students' Satisfaction

Response	*Frequency*	*Percent*
No	39	47.0
Yes	44	53.0
Total	83	100.0

The findings revealed that to a larger extent the image of contracted service providers affected the level of customer satisfaction with the parent institution. This view was held by majority of the students (53.0%). Further analysis on the image of service providers in relation to customer satisfaction is presented in Table 6.

Table 6: Image of Service Providers and Customer Satisfaction

	N	*Min*	*Max*	*Mean*	*Std. Deviation*
The university only contracts service providers with good image and reputation in the field of practice	83	1.00	5.00	4.16	1.06
Students feel more satisfied when they are handled by reputable institutions	83	1.00	5.00	3.75	1.33
The reputation of service provider also reflects the expectation of the customer on the quality of service	83	1.00	5.00	4.00	1.35
Student complains are less in areas where services are provided by reputable firms	83	1.00	5.00	3.70	1.45
Valid N (listwise)	83				

Regarding the image of service providers, the findings were that: the view that the university only contracts service providers with good image and reputation in the field of practice was widely held by majority of the students therefore rated the university high (Mean = 4.16, σ = 1.06). Students also concurred to a large extent that the reputation of service providers also reflected the expectation of the customer on the quality of service (Mean = 4.00, σ = 1.35) which implied that image contributed towards customer satisfaction. Students also felt more satisfied when they were handled by reputable institutions (Mean = 3.75, σ = 1.33) and also student complaints were less in areas where services were provided by reputable firms (Mean = 3.70, σ = 1.45). This shows that the students/customers were more satisfied when handled by more specialized institutions with reputable image.

4.3 Correlation between BPO and Customer Satisfaction

Multiple Pearson Correlation analysis was performed between variables to establish whether BPO played a significant role in customer satisfaction. The test results are shown on Table 7.

Table 7: Multiple Colinearity between BPO and Customer Satisfaction

		Satisfaction Level
Relationship with Service Providers	Pearson Correlation	.381*
	Sig. (2-tailed)	.045
	N	80
Image of Service Provider	Pearson Correlation	.145*
	Sig. (2-tailed)	.019
	N	83

*. Correlation is significant at the 0.05 level (2-tailed).

Correlation results on Table 8 shows that there existed a significant relationship between BPO for service and the level of customer satisfaction. The relationship between service providers and the university played the greatest role in ensuring customer satisfaction ($r = 0.381$, $p < 0.05$). Lastly, image of service provider played a significant though weaker role in ensuring customer satisfaction ($r = 0.145$, $p < 0.05$).

5. Conclusion and Recommendations

The study concludes that BPO has increasingly played an important role in Laikipia University as it has been adopted to support the daily operations in the University. However, the level of customer satisfaction remains low which is attributable to the extent of influence of BPO. The relationship with service providers played the largest role in customer satisfaction. Relationships affected the quality of services offered at Laikipia University. Low level of customer satisfaction was attributable to the image of service providers. Students felt more satisfied when handled by service providers with high reputation.

Laikipia University should consider revising contract management procedures for outsourced services to foster healthier relationships that enhance better customer satisfaction. Image of service providers should also be incorporated when vetting suppliers of services across different institutions especially from institutions where the service provider interacts directly with the customers.

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